an adequate supply of spendable funds to business enterprises. (2) Although the order of presentation adopted by the authors undoubtedly more readily arouses the interest of the student, the orthodox order is superior in that it follows the natural evolution of the present mechanism of exchange and thus develops the subject in a more orderly manner. (3) It would be deplorable indeed if students were graduated from a college of commerce with no more contact with monetary principles and problems than are offered in the few cut and dried propositions set forth in *Banking and Business.* Some recent astonishing utterances of prominent men upon monetary questions convince the reviewer of the error of the author's statement that "discussion of the abstractions of monetary science should be largely avoided." (4) The long-drawn-out discussion of the various measures which formed a part of the background of the federal reserve is uninteresting and in fact confusing to the beginning student in finance and therefore should be reserved for advanced students who are interested in an intensive study of the system.

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The World's Monetary Problems. By Gustav Cassel. (London: Constable & Company. 1921. Pp. 154. 3s. 6d.)

The volume contains two memoranda, written in response to the invitation of the League of Nations, the first for the International Financial Conference in Brussels, 1920; the second for the meeting of the Financial Committee of the League of Nations in September, 1921.

The first memorandum deals with inflation, the second with deflation. In the first, the dangers of inflation are emphasized and the author urges that restrictions be set up against further indulgence in that direction. In the second, however, he attributes the breakdown in production and the widespread existence of unemployment to what he characterizes as a drastic policy of deflation. Professor Cassel's words in this connection have given aid and comfort to the many advocates of "soft" money in this country.

According to the memorandum, inflation, due first to the creation of credit currency—loans made in excess of real savings—has been furthered by huge government expenditures, heavy taxation, and by certain efforts to counteract the evils of previous inflation. When taxes become a heavy burden, tax payers are forced to borrow from the banks to make their payments. This increases the volume of credit currency without increasing the stock of commodities, thus causing further inflation. Likewise attempts on the part of governments to supply their people with goods at prices below cost of production; to pay subsidies, bonuses, allotments and allowances, most of which are at-

tempts to compensate for the ill effects of previous inflation, all necessitate the creation of additional credit currency and thus enhance inflation.

The effect of inflation, with its concomitant depreciation of currency has been to drive gold out of most countries and into the bank vaults of one or two others, notably the United States. This increase in the supply of gold in such countries has lessened its value in comparison with commodities.

Throughout the world, currencies of all kinds have thus depreciated. For most countries it is useless, and is even a serious hindrance, to speak of normal parities with gold, since these countries do not possess, nor are they likely to obtain at any time in the future, sufficient gold to restore the old relationships. The important thing after all, he contends, is the purchasing-power parity. If that can be stabilized, the business of the world can go forward. Rates of exchange are disturbing to international trade only in so far as they deviate from purchasing-power parities. Valuations which are put on foreign money depend upon the relative purchasing power of the currencies of both countries.

Professor Cassel discredits the explanation of the anti-quantity theorists that the rise in prices was caused by a scarcity of commodities, and that this resulting rise in the level of prices necessitated an increase in the quantity of money. The shortage in commodities should have led to a decrease in currency since there was then less money work to be done. But since the quantity of money was not decreased to correspond with the reduced supply of commodities, the money supply was redundant and the price level rose. Hence it was really inflation which was at the bottom of the demand for further inflation. Inflation is the sole cause of depressed exchanges which are anything more than temporary in their nature. Hence depressed exchanges cannot be corrected by adjustment of the trade balance. Nor can the money standards be improved by increasing the gold reserves, so long as the currency is redundant. Furthermore, improvement in government credit cannot usually give a higher value to its money standard. "International purchasing power altogether depends on the limitation of the supply of money." Further inflation causes additional fluctuations in exchange. It is this instability however, and not the level of the exchanges, that delays recovery. The first step toward recovery therefore is to stop further inflation.

Professor Cassel occupies the somewhat unusual position of recognizing the evils of inflation and of opposing further adventures in that direction, but at the same time objecting to the process of deflation. Changes either upward or downward he desires to avoid. Indeed he goes so far as to suggest that special steps be taken by the nations

of the world to prevent gold from rising again in value. In this connection he suggests the following alternatives—(1) progressive reduction in the monetary demand for gold; (2) immediate abandonment of the use of gold as a monetary standard.

It is asserted that the desire to restore the pre-war gold basis for currency rests upon no logical grounds, and to attain such result great hardship and national bankruptcy would have to be faced. Since few of the European countries can hope to restore the pre-war value of their currencies, their problem becomes that of stabilizing dollar exchange at some definite figure. But of course this difficulty is aggravated if the United States raises the value of the dollar by a program of deflation. The deflation policy of the United States thus forces deflation upon those countries which desire to see their currencies improve or even hold their own in the international market. The efforts of the United States to get back to a solid foundation for its own financial structure impose a heavier burden upon the struggling European nations. It seems to be largely this feeling which is responsible for Professor Cassel's sharp criticism of our deflation policy.

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NEW BOOKS

Angas, L. L. B. *Reparations, trade and foreign exchange.* (London: King. 1922. Pp. 351. 12s. 6d.)

Economic aspects of the indemnity present great difficulties affecting the interests of British industries. The gist of the author's thesis is to this general effect: (1) The indemnity cannot be paid with money and will involve a transfer of goods from Germany to England. (2) These goods will compete with English products, thus causing stagnation and unemployment in British plants. (3) This situation cannot be avoided by a triangular trade arrangement, such as a plan by which there would be German dumping in Spain and Spanish dumping in England. The suggestion that Germany should pay with non-German securities is on the whole considered good; it has decided limitations, however, and there is no escaping the conclusion that the indemnity for the most part must be paid in commodities.

From the present viewpoint of unemployment, the book is most valuable in pointing out obstacles and dangers in the way of home business. It would seem, nevertheless, that the author overemphasizes the disadvantages accruing to British industry from competition of foreign goods paid for directly or indirectly by the reparations. The same objections might be made to importations in general or to trading with a country that has just begun to develop manufacturing on a successful basis.

Other matters to which attention is given include the problem of inter-allied indebtedness, foreign exchange and inflation, with special reference to unemployment.

M. J. S.